

Research Department
Federal Reserve
Bank of
San Francisco

October 22, 1982

Who are the Unemployed?

The unemployment rate hit 10.1 percent of the labor force in September and the high current rate of new claims for unemployment compensation indicates that the rate may remain this high for some time. The 10.1 percent rate is the highest since 1940, yet what constitutes unemployment is still not universally understood. The popular concept is that one is unemployed when one has lost one's job. But there are many definitions of unemployment and many groups of people behind the statistics.

Reasons and definitions

According to the Bureau of Labor Statistics, a person may be considered unemployed for any of four reasons. The first, and most familiar, of the reasons for unemployment applies to those *job losers* whose employment was terminated involuntarily, and who immediately began looking for another job, or those who were on lay-off. *Job leavers* are persons who quit or otherwise ended their employment voluntarily, and began looking for another job. *Re-entrants* are persons who have worked at a full-time job for at least two weeks or longer but were out of the labor force (i.e., not working or looking for work) before beginning to look for work again. *New entrants* are persons who have never worked at a full-time job lasting two weeks or longer.

The definitions of unemployment are as varied as the reasons for unemployment. They are based on a survey of 57,000 households conducted each month in the survey week containing the 12th of the month by the Bureau of the Census. The employment data obtained is used by the Bureau of Labor Statistics to develop the unemployment numbers.

The overall definition of unemployment includes all persons who did not find work during the survey week, but who had made specific efforts within the preceding four weeks to find work and who were available

for work during the survey week (unless temporarily ill). The definition also takes in those waiting to be called back to a job from which they were laid off or those waiting to report to a new job within thirty days.

The labor force

Because the unemployment rate is a percentage of the labor force, to understand one we must understand the other. The labor force is not a static pool of persons who are working or persons who have lost a job. Its composition is continually changing; it grows as the population increases or as a greater percentage of the population is looking for work. For example, the labor force grew from 108.7 million persons in July 1981 to 111.0 million in September 1982, for a gain of 2.3 million. At the same time, total employment dropped by 1.1 million to 99.8 million in September. Since the number of persons looking for jobs increased by a greater amount than the absolute increase in the number of jobs, the excess of job seekers over jobs found must be considered unemployed.

The reason that the labor force has grown is that the labor force participation rate, the percentage of the population looking for work, rose from 63.8 percent to 64.3 percent from July 1981 to September 1982. The net increase of 700,000 was divided about evenly between adult males and adult females, with a decline of about 400 thousand among teenagers.

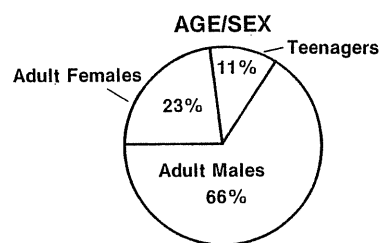
Still another measure of the utilization of labor is the employment to population ratio. This fell from 58.3 percent in July 1981 to 57.0 percent in September 1982, indicating a drop in employment. Still, the percentage was well above the rate at the trough of the 1975 recession of 55.1 percent.

Who and why?

The unemployment rate is always several percentage points above zero because there

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(Figures may not add to total because of rounding)

are always a number of people out of work for various reasons: temporary layoffs, leaving one job to look for another, entering the labor force for the first time, or returning to the job market after an extended absence. Even at times of substantially full employment, then, there is a certain amount of "frictional," or what economists refer to as "natural," unemployment.

At the peak of the current business cycle, in July 1981, the unemployment rate was 7.2 percent. This was the highest rate for any peak in economic activity since World War II, but it was high because a secular decline in certain basic industries, such as autos, primary metals and housing was pushing up the natural rate of unemployment.

In July 1981, the breakdown of about 7.8 million unemployed showed 21 percent teenagers, 42 percent adult males (20 years and over), and 37 percent adult females. On the basis of occupation, 42 percent were white-collar workers and 58 percent were blue-collar workers. Within these broad categories clerical workers and workers in wholesale and retail trade, financial services, and real estate accounted for the most serious unemployment among white collar workers. Among blue-collar workers, joblessness concentrated in construction and factory workers, in auto and allied industries.

Classified by reason for unemployment, job losses accounted for 49 percent of total unemployment in July 1981. Job leavers and new entrants each accounted for about 12 percent of measured unemployment, with the remaining 27 percent composed of re-entrants to the labor force. Thus, slightly more than half of those persons classified as unemployed in the July 1981 household survey were not unemployed as a result of losing a job. For the most part, new entrants to the labor force are concentrated among teenagers and those in the 20-24 year age range who may have just left school. A large part of re-entrants to the labor force are women with previous work experience who have left the

labor force to raise a family and who are now returning to the job market.

The increase in unemployment

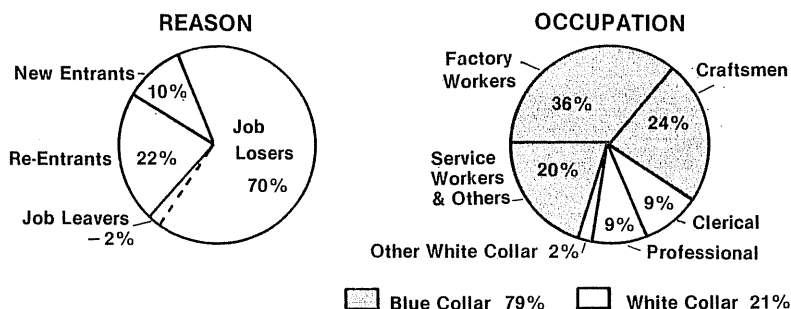
From July 1981 to September 1982, the number of unemployed persons increased to 11.3 million, or by an increment of 3.4 million. When classified on the basis of age and sex, 66 percent of the increase consisted of adult males, with an increase of 23 percent for adult females and 11 percent for teenagers. That nearly two-thirds of the increase in unemployment was among adult males can be explained by the fact that the workforce in the most severely depressed industries—autos, primary metals and construction—is predominantly male.

Turning to the reasons for unemployment, job losers accounted for 70 percent of the increase in the number of unemployed. A slackening of final demand for the products of depressed industries led to a drop in new orders and a corresponding drop in production and employment. The number of re-entrants and new entrants to the labor force increased but because of the sharp increase in unemployment among job-losers, their share of the pool of unemployed shrank from the July 1981 peak through August 1982.

The only group to show a decline is the category of job leavers, which registered a drop of about 2 percent. This is understandable—given the deteriorating state of the economy, individuals might be expected to hold onto a job rather than to quit it in order to look for another one.

Categorizing unemployment by occupation shows that blue collar workers made up almost four-fifths (79 percent) of the increase in unemployment over the past year and a half. Factory workers accounted for 36 percent of the total increase in unemployment, with construction and allied crafts not far behind at 24 percent of the total. White-collar workers suffered an increase amounting to 21 percent of the total increase in unemployment. *Fortune* magazine has

COMPOSITION OF INCREASE IN UNEMPLOYMENT July 1981 — September 1982



referred to this as the "executive recession" and the unemployment figures support the magazine's assessment.

The increase in the number of jobless professional and technical workers exceeds slightly the increase in unemployment among clerical workers, but each of the two groups accounts for about 9 percent of the July 1981 to September 1982 increase in unemployment. This appears to bear out the various press reports of cutbacks in corporate staff at the middle management level as well as on the production line. (Teachers are included in the professional and technical category and layoffs of teachers are estimated at around 50 thousand in the past year.)

Incidence of unemployment

The household survey of unemployment gives a picture of persons who have lost their jobs or who are unsuccessful in their job search relative to a given week each month. Over a longer period, looking beyond the definitions of unemployment used in the survey, the number of jobless persons may be larger. One could, for example, measure the incidence of unemployment over the period of a year. If the unemployment rate used this measure of all persons who were unemployed for any period of time during the year, it would probably exceed 20 percent this year rather than the 10.1 percent of the survey taken in September. The Bureau of Labor Statistics compiles such a series and estimates that the total number of persons experiencing unemployment at any time in 1981 was over 33 million. Of this number, one-third reported two or more periods of unemployment exceeding two weeks.

Another measure of jobless persons is the quarterly survey of discouraged workers. For the third quarter of 1982, the total was 1.6 million, up from 1.1 million in the third quarter of 1981. Discouraged workers are defined as those who have not searched for work in the past 4 weeks (or longer) prior to being surveyed. These individuals may have dropped out of the labor force because of

personal reasons—feeling that they are too young or too old, that they have personal handicaps, or that they lack education or training. They may also have withdrawn from the labor force for "job market factors" such as the perceived lack of a suitable job in their line of work or geographical area.

Although the number of discouraged workers has increased by 0.5 million since the economic peak of 1981, previous experience indicates that the composition of discouraged workers is quite different from the unemployed still in the labor force (i.e., still looking for work). Only about one-tenth of the total of discouraged workers were adult males in their prime working years, 25–59 years. Women comprised the largest group of discouraged workers in 1980 accounting for nearly six-tenths of the total of discouraged workers. During that year, at least, women reacted to a downturn in the economy in two ways: by entering the labor force in greater numbers, as evidenced by the increase in their labor force participation rate, and by removing themselves from the labor force, also in large numbers. (All of the 100 thousand increase in the third quarter of this year was among women.)

Conclusion

An unemployment rate of 10.1 percent of the labor force indicates that there is a substantial amount of idle resources in the labor market. Yet, it does not by itself, convey information about the personal characteristics of the individuals involved, the reasons that they are unemployed, or the nature of their job. The incidence of unemployment may vary from the job loser who is a manager, whose occupational group has an unemployment rate of 3.6 percent, to the unemployed black male teenager, a new entrant to the labor force, whose group's unemployment rate is over 51 percent. For them, although the numbers differ, the tie is the same: they are out of work and looking for a job.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 10/6/82	Change from 9/29/82	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	163,404	893	9,857	6.4
Loans (gross, adjusted) — total#	143,670	1,020	11,150	8.4
Commercial and industrial	46,306	484	6,094	15.2
Real estate	57,489	— 78	2,743	5.01
Loans to individuals	23,462	— 55	269	.12
Securities loans	2,590	— 62	801	44.8
U.S. Treasury securities*	6,486	— 82	797	14.0
Other securities*	13,248	— 45	— 2,086	— 13.6
Demand deposits — total#	40,976	2,503	— 1,118	— 2.7
Demand deposits — adjusted	28,580	1,886	— 698	— 2.4
Savings deposits — total	32,146	1,351	2,309	7.7
Time deposits — total#	101,311	658	14,973	17.3
Individuals, part. & corp.	91,235	651	12,829	16.4
(Large negotiable CD's)	39,115	1,096	4,911	14.4
Weekly Averages of Daily Figures	Week ended 10/6/82	Week ended 9/29/82	Comparable year-ago period	
Member Bank Reserve Position				
Excess Reserves (+)/Deficiency (—)	471	88		85
Borrowings	3	70		3
Net free reserves (+)/Net borrowed(—)	468	18		82

* Excludes trading account securities.

Includes items not shown separately.

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